RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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December 14, 1983 **LETTER 876**

Dec. 2 DJIA 1265.25; PTI 1784; A-D Ratio -14.97
Dec. 9 DJIA 1260.06; PTI 1779; A-D Ratio -15.28

THE PICTURE: Pity the poor investor. The stock market picture is clear and easy on occasion, and sometimes those occasions can last for months. But for the most part, the stock market picture is difficult and murky, and I'd say the difficult period is in effect about 75% of the time.

I write what I see in these Letters. Subscribers may think I simply work up a formula, and then the stock market follows that formula and all is well, but it doesn't work that way. No, the market is a law unto itself; it operates in a world of its own. And I try to get into the unconscious of that world. I try to peer into the guts of the market and decipher the message.

Up to now, I've been feeling that the way was very clear. We're in a primary bull market, and I felt that single fact superseded every other consideration. But of late the picture has turned just a little bit murky.

I'm going to discuss five technical items in coming paragraphs. Three of them are bullish and two of them are questionable—but they could mean trouble. I write what I'm thinking in these reports, and I would be totally remiss if I ignored the two questionable items.

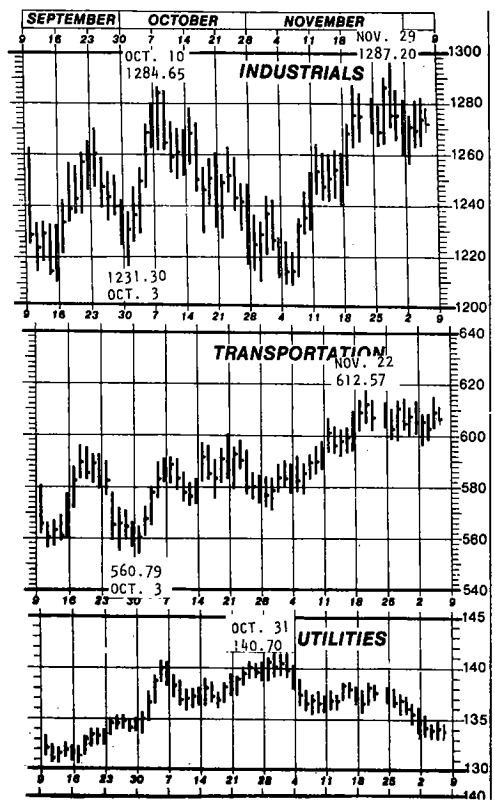
(1) The first item is bullish. And that item is the overriding pattern of the D-J Industrial Average and the D-J Transportation Average. These two Averages have been marching to new highs for many months now, and each joint new high constitutes a re-confirmation of the primary bull trend. That's a big plus in the market picture, and it's comforting. So, there's no problem in the pattern of the D-J Averages. Of some concern is the fact that the major composites have not been hitting new highs, and I'm talking about the Standard & Poor 500 and the NYSE Composite. The high for the S & P 500 was 172.65 and the high for the NYSE Index was 99.63. Both highs were recorded on October 10. These composite averages could still confirm the Dow Averages by going to new highs, but they haven't yet.

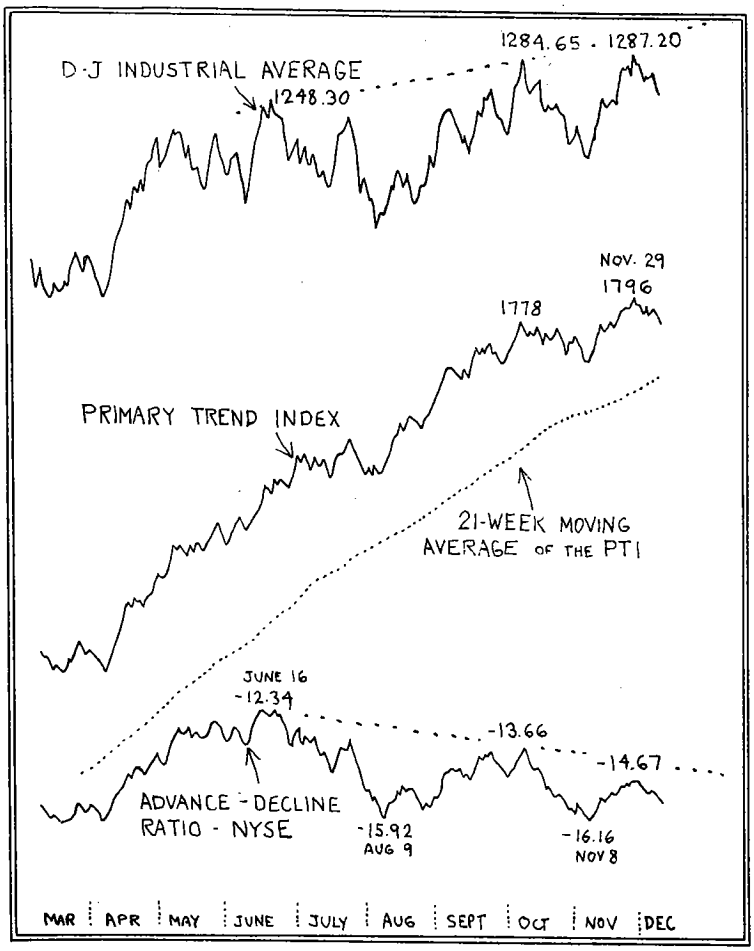
(2) The second major bullish item is my Primary Trend Index (PTI). For the benefit of the many new subscribers, I should say that the PTI is a proprietary index. It is an amalgam of eight technical indices and averages, and each of the eight items is based on action of the market (as opposed to sentiment). The PTI covers (on a daily basis) everything from the price action to daily high-lows to bonds to market breadth. As long as the PTI is in a rising trend, I consider the underlying technical structure of the stock market to be bullish. When the PTI is in a declining trend, I consider the technical understructure of the market to be deteriorating. As you can see on the page 2 chart, the trend of the *PTI remains bullish,* and this is a comfort. Veteran subscribers know that I give great weight to the PTI. This indicator (which I have used continuously since 1971) has "saved my life" on many an occasion

(3) I have been writing extensively about the short interest and the SI ratio in recent Letters. I want to remind subscribers that there is a tremendous (and very fundamental) difference between the short interest during a bear market (at which times the shorts are aligned CORRECTLY with the bear trend) and the short interest in a bull market (when the shorts are incorrectly positioned AGAINST the prevailing primary trend).

That is why I feel that today's record short interest is so significant. It is significant because the recent new highs in both the D-J Industrial and Transportation Averages tell us that the primary trend is up. Thus, a record short interest is now fighting the primary trend of the market.

Market Logic (3471 N. Federal Highway, Ft. Lauderdale, FL 33306) has developed an improved SI ratio. Instead of dividing the monthly short interest by the average daily volume for the period, they divide the short interest by the average daily volume for the past year (this eliminates seasonal volume tendencies). The annualized SIR is now a very bullish 2.23. The record of the annualized SIR from 1947 to date is shown on this chart from Market Logic. Note that when the SIR is over 1.75 (and it





is now 2.23) the broad S & P 500 was up an average of 27% one year later–and the probability of gain was 98%.

ANNUALIZED SHORT INTEREST RATIO
AND ONE-YEAR MARKET PERFORMANCE (1947-1983)

SIR	S&P 500 1 Year Later	Probability of Gain
Under 1.00	-- 4%	34%
1.00 to 1.25	+ 3%	58%
1.25 to 1.50	+ 9%	74%
1.50 to 1.75	+13%	82%
Over 1.75	+27%	98%
Average	+ 8%	70%

So those are the three main bullish items that I have been watching, and those are the three main bullish items that I have been drawing to the attention of my subscribers. There are a number of lesser bullish considerations that I could also mention such as the strong action of the daily 15 most-active stocks, the stubborn selling of the odd lotters, etc., but the three bullish items that I have paid most attention to are discussed above.

Now we come to two items which bother me. (4) The first is the very recent action of the D-J Utility Average. The Utility Average struck a high, its highest level since 1968, on October 31. That high was 140.70 (see chart on page 1). Since then, the Utility Average has traced out a little "head-and-shoulders" top and slid off to the low 130 area. The Utility Average tends to be a bellwether. The Utility stocks are sensitive to interest rates, they are sensitive to power usage, and they are sensitive to fuel costs. Speaking of the latter, the price of oil has been coming down, so this should have been a bullish factor for the utilities. But it has not been, so far.

Historically, the Utility Average tends to top out about four months ahead of the general market. It's been a little more than a month since the October 31 high in Utilities, and the action since then has not been too drastic on the downside. But the trend of the Utility Average must now be considered neutral to negative, and I wanted to bring that to the attention of my subscribers.

(5) Turn to the page 2 chart. Note that we have now seen three new highs on the D-J Industrial Average–but each of those successive new highs was accompanied by a successively lower peak on the advance-decline ratio. This kind of extended divergence has often, in the past, meant trouble. The three Dow highs are the 1248.30 of June 16, the 1284.65 of October 10, and the very recent record high of 1287.20 struck on November 29.

Frankly, I do not yet know what to make of this stubborn price (Dow) and breadth (A-D ratio) divergence. I have seen times in the past when this kind of divergence has led to market slides and even collapses. And I have seen other times when, following a price/breadth divergence, the A-D ratio turns up and confirms the more powerful action of the Dow. The picture is a technical puzzle as I write this Letter. But it is not a puzzle that can be ignored, particularly with the Utility Average now having turned down.

I have two comments that I want to make about the current price/breadth divergence. It may be that with today's fantastically high short interest ratio, the price/breadth divergence will be negated. It may be that the massive short position provides such a strong technical cushion under this market that the price/breadth divergence is simply indicative of a *stalemate* in the market, a sort of *technical stand-off.* If so, then I would expect to see a few more weeks to months of the same action. By that I mean a sideways movement of the A-D ratio with perhaps erratic but basically positive action in the D-J Averages. Perhaps we will see a bottoming in Utilities with the Industrial and Transportation Averages working higher or just backing and filling. If we see that kind of action I would say "great," this market is continuing to build technical strength preparatory to the next major advance.

But if the A-D ratio continues to decline, and it breaks under its November 8 low, I would say that was a negative indication, and it would suggest that this market was heading for trouble, or (at best) a fully over-sold situation. So what I'm saying is that I simply cannot predict what is coming up next over the near-term, but I did want subscribers to see the picture and be prepared. Remember, I don't make the markets, I follow them. And I write about WHAT I SEE.

All right, I've presented the technical picture of the market as I see it. So how do we operate from here? For my answer, I'm going to turn to the indicator which nobody else possesses and nobody else computes, this is my PTI. Note on the chart that all through this confusing period since June 16 (which was the date of the 1983 high on the A-D ratio), all through this period the PTI has been rising to successive new peaks. It's almost as if the PTI was holding the market up (or pulling the market up) on some kind of invisible string.

I've written this many times, but I'll write it again. The market can waffle and back-and-fill, there can be divergences, there can be confusion, but as long as the PTI is in a rising trend the situation is positive. And by that I mean that the market will have a positive understructure–it will not fall apart. By the same token, a steadily rising PTI will act as a magnet, and sooner or later it will tend to pull the major averages to or above the previous highs.

Conversely, when the PTI is in a persistent declining trend it is telling us that the underlying technical situation is deteriorating, and at such times the stockholder will be subject to losses across the board. Sitting with stocks through a long decline in the PTI is the ticket to bankruptcy. I do not recommend it (and subscribers during 1973 and 1974 probably remember how beautifully the PTI kept us out of the market throughout that period).

The PTI hit a record high of 1796 on October 29, 1983. Since then, it has drifted off slightly, but the *decline has been restricted and unimpressive.* The PTI low of November 8th was 1750. If the PTI turns down and breaks that low then I would take that action as an initial danger signal. That action (if it occurs) would be the first time since August 1982 that the PTI had established an important low, risen to a new high–and then turned down again and broken that low. As I say, this has NOT happened yet, but if it does occur I would take such action as constituting a definite danger signal. And that danger signal would dictate that we do some significant selling of our mutual funds (or at least switching part of those funds to the money market segment of the fund family).

The dotted line on the page 2 chart is the 21-week (exponential) moving average of the PTI. The PTI pushed above the 21-week MA in early October, 1982 and it has never broken below the 21-week MA since then. The 21-week MA has been rising at a rate of about 5 points a week and is currently at 1739. At present the PTI is almost 50 points *above* its 21-week MA. But if the PTI breaks below 1739, I would say that the 15-month rising trend of the PTI (a trend that began from the August 1982 bottom) had been reversed. In that case, regardless of anything else that was occurring, my subscribers should move out of the stock market and onto the sidelines.

Question: Russell, you alone compute the PTI, so how would I know if the PTI had broken its November 8 low of 1750 and how would I know if the PTI had broken its 21-week moving average?

Answer: I would send out a special Letter in case of a PTI breakdown.

Question: How do you feel about the odds of the PTI breaking down? Do you think it's going to happen?

Answer: The odds are always against a major trend reversing. So on that basis I would say that the odds here favor the PTI remaining in a rising trend. But the much more honest (and I really think the more helpful) answer is that I never try to predict reversals in the PTI. I don't try to predict reversals because I'm not that good at it. I'm very good at identifying reversals in the PTI, and that's the work I'm going to stick with. And in the end, I believe subscribers will do much better with my identifications of reversals than they will with my predictions (remember, predictions always contain an emotional element, and they contain an ego element. This is true because the analyst wants the market to conform to his scenario. The analyst has taken a position on the market, and obviously he wants that position to be the right one).

Question: Russell, let's face it. You have taken a strong bull position on this market. Let's say the PTI moves into a definite downtrend. How can you reverse yourself and tell us to go into cash? And this after all you've written over the last year.

Answer: I have a pretty strong ego. But in this business if you live by your ego you're on the way to the poorhouse. I've been in the advisory business over 25 years, and the worst mistakes I've made during those 25 years (and I've made a lot of them) is when I let my ego overrule what I was seeing.

I'm assuming that my subscribers are reading me because they are interested in my analysis of the market, rather than because they think I have the magic answer to what the market is going to do one month or six months from now. One of the secrets of successful investing is the ability to put your ego and your preconceived notions aside–and listen to the message of the market. I try to do that.

This market has been moving up or consolidating ever since August 1982. It's been a bull market, and I believe it's still a bull market. But if my PTI turns down and breaks 1750 and then drops below its 21-week MA, I'm going to tell my subscribers to move to the sidelines. I won't take such an announcement as a blow to my ego. I'll take it as proper procedure, and I'll assume that that's what my subscribers pay their hard earned money to hear.

Question: All right, let's say your PTI breaks its 21-week MA and goes into a bear trend. Would that mean that the bull market is over or couldn't it just mean a secondary reaction or a final wash-out preparatory to the next major market advance?

Answer: My guess is that if the PTI turned bearish, it would mean that a bull secondary reaction was underway. I base this to a large extent on the record short interest and the powerful position of the short interest ratio. But as I have said so often, the market can do anything, and the cost of early market insurance can be very cheap if a true primary bear market develops. So from the procedural standpoint, I don't care what we choose to label it, if the PTI turns bearish. At that point, I simply want my subscribers out of the market.

I want subscribers to understand that just because I have been writing about the possibility of the PTI turning bearish, that does NOT amount to a prediction. I simply want to bring all this to the attention of subscribers. I don't like stock market surprises. I don't like them because when you get a surprise you usually are not prepared for it, and you may be unable (psychologically) to take action. In writing this piece, I wanted to eliminate the possibility that a bearish PTI would constitute a surprise for my subscribers.

Question: In the Letter of September 8 (Letter 869) you discussed the momentum index, and at that time you suggested that the market could have a long consolidation. Isn't that what we are seeing now?

Answer: Yes, that could well be. Last July the momentum index registered 51%. That figure was based on a year-to-year comparison of the Standard & Poor's 500 Stock Index. The comparison

was of the July price of the S & P 500 as a ratio of its price one year ago.

It is important to note that the last time the S & P 500 momentum index rose above 50 was back in 1943, just one year after the depression market low of mid-1942. Following the 50 reading in 1943, it took the market 11 months to consolidate, back and fill and work off the extreme of upside compression. I have been saying that it is possible (actually probable) that the same things could be happening now.

Following the extreme upside compression which was in effect last July, it could take anywhere from six months to a year of consolidation before this bull market is ready to move out again on the upside. In fact, I would say that the longer this market consolidates with the major averages intact (which they are at this writing), the better the outlook for stocks.

It is a truism that bull markets do not like being held back. But during every bull market there are periods (often long periods) when the bull is penned-up, restrained. These periods can be brought on by a preceding period of over-speculation, or a particularly adverse piece of news can hit, such as a Presidential heart attack or a natural disaster (such as the San Francisco earthquake). Or the Fed can put a squeeze on the money supply or a war can break out. Any one of a thousand items can restrain the bull–but they can not kill him.

Let's look at it this way. Last July, with the S & P index up 50% over its price of one year ago, the market had made an historic move. In fact, that kind of upside action has only been seen twice before since the 1920s.

When a broad market index such as the S & P 500 rises over 50% in a year, it is safe to say that the market has discounted an awful lot of forthcoming good news. But time works in favor of stocks during a bull market. In other words, values are increasing through time–even while a bull market is resting. So what the market could be doing now is letting stocks rest while the economy and earnings catch up to the forecast of the market. This is actually what I think is happening.

INVESTMENT POSITION: It's a bull market, the PTI remains in a bullish mode, and we're sitting with our mutual funds. My apologies for those who called the recommended Lindner Fund. We included a wrong number. The Lindner typo is now rather academic because the very successful Lindner Fund is now refusing additonal applications. Fidelity is now charging fees of up to 3% on Magellan, Mercury, Equity Income and its Select group (these are all good funds, but the fees are annoying and I feel they smack of greed).

No-load mutuals that I like now are Columbia Growth, 1-800/547-1037; Guardian Mutual, 1-212/850-8300; Pennsylvania Mutual Fund, 1-800/221-4268.

DEFENSE: The arguments are now raging regarding which way the US should go in nuclear weapons and nuclear defense. The fact is that the Russians are outproducing us in almost all areas of the military, and for every missile the US builds the Russians are currently building several with which to destroy each one of ours.

Three systems are possible as far as US anti-ballistic defense is concerned. (1) The ABM would not entail a nuclear explosion but simply a rocket which would zero in on the incoming projectile and destroy it. (2) This would be a weapon which would intercept the missiles on or near the launch-pad. They would be sent out from space stations, and they would intercept the missiles via heat-seeking devices. (3) This system would use laser beams, X-ray or proton beams to destroy incoming missiles.

The debates are hot and heavy regarding each of these systems. But the fact remains that the US still has no working system with which to destroy incoming missiles.

In view of the enormous expenses connected with building new systems, Mr. Reagan is projecting (asking for) a $322 billion defense budget for fiscal 1985. As I have been stating over and over in these Letters, the cost of new military systems is going to be astronomic as the technological race for military parity (or superiority) continues. In my opinion, the Russians have absolutely no thought of ending the race. I believe that the Russians are counting on the US throwing in the sponge on the technology race–on the basis of the costs being more than the US is willing to accept.

The December 1 WSJ had an interesting editorial on the whole situation. The gist of the editorial was that the US has unilaterally given up on the one option that could help the strategic imbalance, and that is the building of an anti-ballistic missile (ABM). The WSJ concluded rather bitterly, "So maybe instead of rushing to get the Soviets back to the (bargaining) table, the US should consider walking out of some arms agreements on its own. If we stop thinking that the only alternatives are negotiating with shysters or blowing up the world, we might actually find ways to defend ourselves."

Defense Notes: On the December 4 attack on Syrian positions in Lebanon, the US sent in aging A-6 and A-7 attack planes. The A-6 Intruder was designed in 1957 and the A-7E Corsair 2 was designed in 1964. These are among the oldest planes in the US fleet and neither plane can do 700 MPH. Since the Syrian (Russian made) missiles are supersonic, the pilots have to depend on evasive action to avoid the missiles. Two of the US pilots flying the "antiques" obviously didn't evade enough.

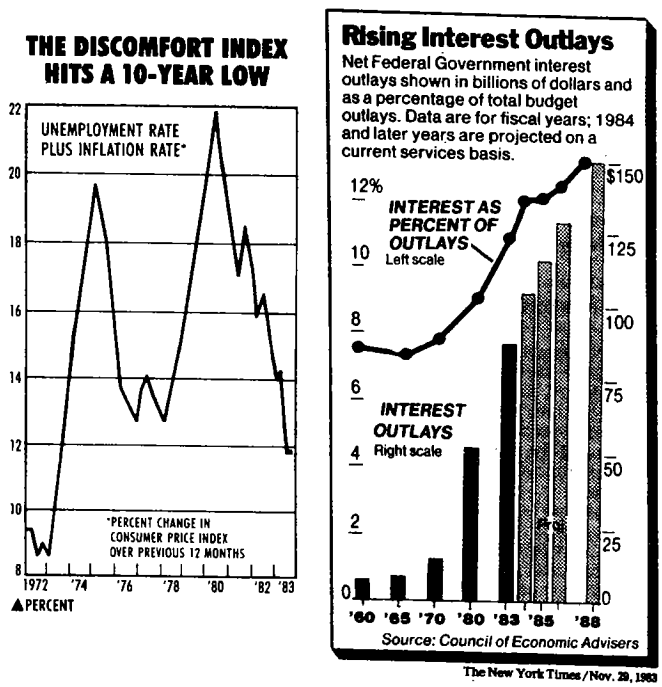
The massive military build-up is starting to generate big profits for prime contracters. For the third quarter (on a year to year comparison) McDonnel Douglas' profits were up 28%, General Dynamics was up 49%, Rockwell was up 33%, Northrup was up 56% and Lockheed was up 8%. Before long, the primes will be letting out contracts to the subcontractors, and the leverage on some of the smaller sub-contractors' profits will be dramatic.

NOTICE: The December 5 issue of BARRON'S contains an article entitled "The Coming Stock Market Boom." I am (blushingly) mentioning this because (1) I would like all my subscribers to read this article, and (2) I wrote the piece. Barron's is the weekly sister publication to the Wall Street Journal, and most investors consider Barron's to be "the Bible of Wall Street." But in case you don't see Barron's (and you should) I will offer a free copy of the December 5 article to any subscriber sending me a stamped, self-addressed no. 10 (larger) envelope.

With Christmas coming I will also make the following offer to subscribers: I will accept four-month trial (gift) subscriptions to Dow Theory Letters at the special price of $50. You may send as many gift-specials as you like. I feel that an introductory subscription to Dow Theory Letters at this time should make an interesting and probably timely gift. If the recipient of your gift is short on this market, such a gift may prove to be a life-saver!

NOTES & QUOTES: The good news: The late Arthur Okun developed what he termed the "Discomfort Index." This is the Index which measures the degree of economic discomfort felt by the American people at any given time. The Index is simply the unemployment rate plus the inflation rate. Lately (and this should be a big plus for Reagan in the coming election) the Discomfort Index has dropped to a ten-year low. That's the good news.

The bad news is shown on the next chart. Here we see the exponential rise in interest outlays by the US Government, both on a net amount and as a percentage of total outlays. The black bars show the actual figures while the shaded bars show the projections (which should be quite accurate). This is a study which I wrote about furiously all through 1980, 1981 and 1982. Finally, I got tired of writing about it. But the fact remains that rising interest costs are literally eating up this nation. By 1987 the Federal interest costs will be $3 billion per week! And that, in my opinion, will be the seeds of the next primary bear market.


THE DISCOMFORT INDEX HITS A 10-YEAR LOW
UNEMPLOYMENT RATE PLUS INFLATION RATE*
*PERCENT CHANGE IN CONSUMER PRICE INDEX OVER PREVIOUS 12 MONTHS
1972 '74 '76 '78 '80 '82 '83
▲PERCENT
Rising Interest Outlays
Net Federal Government interest outlays shown in billions of dollars and as a percentage of total budget outlays. Data are for fiscal years; 1984 and later years are projected on a current services basis.
INTEREST AS PERCENT OF OUTLAYS Left scale
INTEREST OUTLAYS Right scale
'60 '65 '70 '80 '83 '85 '88
Source: Council of Economic Advisers
The New York Times/Nov. 29, 1983

* *

One of the legends of the 1929 crash was Bernard Baruch, who was rumored to have sold out "on time" and furthermore made a fortune on the short side during the crash. I am particularly interested in Baruch because he was a South Carolinian. My father (raised in South Carolina) visited Baruch when he was looking for a job and needed Baruch's advice. Baruch told him, "The first thing you've got to do, son, is lose that accent. Nobody here will be able to understand a word you say."

At any rate, I was most interested in the excerpt in Barron's, issue for October 31. The chapter is from my friend, Jim Grant's book, "Bernard M. Baruch" (soon to be published by Simon & Schuster). Grant notes that Baruch was not as perfect as he was reputed to be. Grant notes that at the 1939 top Baruch was worth around $22 to $25 million. By November, 1931 Baruch was down to $15 million in stocks, bonds and cash. But to give Baruch credit, to have $15 million in liquid assets eight months prior to the final 1932 bottom was a feat. By my estimate, $8 million in cash in late-1932 (which Baruch had) was comparable to about $150 million today!

* *

Computers—could they be too popular? They had a computer show in Las Vegas a few weeks ago, and it was too big to be manageable. Here's the write-up.

LAS VEGAS — COMDEX, the biggest buy, sell and trade show of the computer industry, just might be too big.

"I'd have to walk non-stop for all five days to see everything," said a Detroit retailer.

"Everything" includes 4,300 booths, 11 square miles of exhibit space and 1,400 companies hosting almost 80,000 visitors through Friday.

In 1979, it drew 4,000 people and 157 companies. Now single booths attract that many. Kaypro Corp. sent 50 employes and is spending $75,000; North Star Computers might spend several times that.

The idea is to sell computers, printers and software to retailers who in turn sell to consumers.

But the size and random layout of COMDEX make shopping around tough.

A study cited by *Computer Retail News* points out that the average person visits only eight to 10 booths at a trade show. That means thousands of new products, particularly those from small or unknown companies, could go unnoticed by those who hold the key to their futures.

* *

The base is being built for a big market. Latest statistics show that 42.3 million or 18% of the US population now own stock in one form or another (many in mutual fund form). The percentage of women owning stock has risen to a new high with 51.5% of today's stockholders being women and 48.5% of today's stockholders being men. The ages of 50 and up may be the "Golden Years" but the survey shows that young investors (21 to 44) outnumber older stockholders by 4 to 1.

Many analysts mindlessly repeat that "the Dow isn't the market." But the Dow is a mighty important Average. Consider this: the 30 Dow stocks represent 20% of all stocks. The average Dow stock has 187 million shares outstanding. The average Dow stock has assets of $18 billion. The average Dow stock produces revenue of $20 billion a year.

* *

I've been hearing about "a new US currency" for about the last dozen years. I have always doubted that rumor. But now I believe it will happen. The new currency could be a three dimensional embossed affair, perhaps with a metal-flecked paper. It will be produced to flush out some of the billions in underground and illicit money. There could be an exchange call-in (assuming all this actually occurs), and you will be told to exchange your cash for the new cash. If you have a few hundred dollars or even a few thousand in cash, that's surely OK. But if you have say five or ten thousand and up, you may be required to say how you got that hard green money.

This is part of an intereview with Congressman Ron Paul (Texas) , clipped from the Gold Newsletter (4425 W. Napoleon Ave., Metairie, LA 70001). I thought it interesting enough to include here.

A Yes. I, like many others, have heard these rumors and have been skeptical. My skepticism has been confirmed whenever I asked, officially or off-the-record, at the Treasury or the Federal Reserve. They have always denied the rumor. This has happened several times on an official level, before our subcommittee hearings on the subject. In the past several days, however, a friendly source in the Federal Reserve confirmed the fact (after denying it in the past), that there will indeed be a new currency and that it "probably" will surface in 1985. He agreed that it would have a different color and that there would be metal filaments or fragments in the currency, detectable by a metal detector. This official at the Fed also suggested that it would all be printed at the central bank instead of the 12 regional Federal Reserve banks, and thus legally avoid the embarrassment of needing collateral to back it. This means they would have unlimited license to print money without backing, which would lead to currency inflation as well as a credit inflation.

Subsequently, I called for hearings on the subject and four members of Congress attended. Behind closed doors, representatives of the Federal Reserve, the Treasury department, the Treasurer herself, and members of the Secret Service confided to me that there would indeed be a new currency, but they emphasized over and over again that this would only be to stop counterfeiting. They denied that the money would be printed without collateral, and they denied that the new currency was part of a specific monetary reform, that is, the turning in of a $100 bill for a "new" $1 bill. (Depending on what the inflation rate will be two years for now, they might change their mind.)

* *

Here's one for Christmas time. You hear a lot of hype from Hollywood, and one of the biggest hypes is the current one going for "Mr. T" of the "A Team." I was therefore most interested in this piece from USA Today, regarding an interview with Mr. T. T, (a fearsome looking black man), turns out to be a good man as well. And that's rather unusual in today's world of hypocrisy and hoopla.

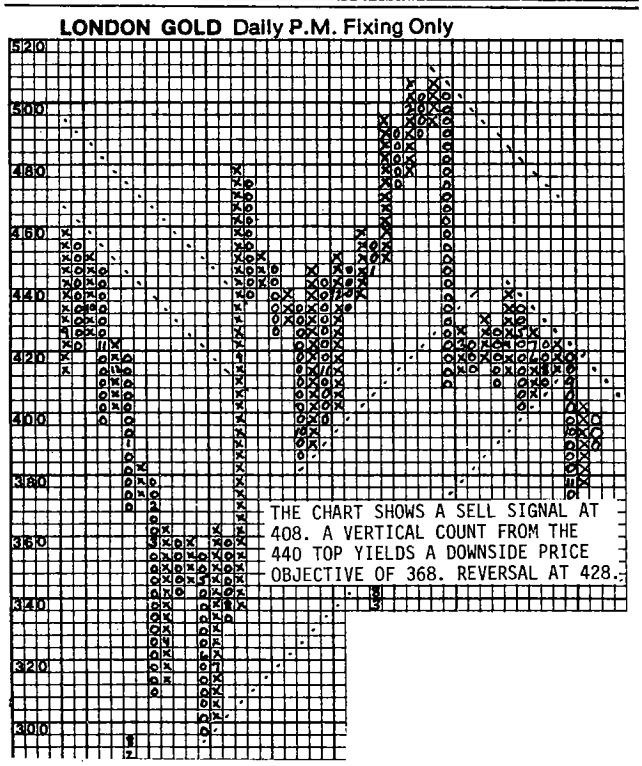
"I don't attend these Hollywood parties. I tell them, 'Don't invite me,' because I might show up in my pajamas or something — because it's so phony there," he told Joan Lunden on ABC's *Good Morning America* Monday. "They make a big fuss of Mr. T now, because he's so hot he's sizzlin'. You know, a couple of months ago I was just a wild-lookin' nigger with a funny haircut, with junk around my neck."

Mr. T also talked about:

■ Children. "They don't know racial hatred or prejudice or jealousy or things like that. . . . When they write me, the fan mail, they say 'Mr. T, we love you' — that's coming from their hearts. I'm really honored by that, and I try to always project a positive image to them. . . . And that's why I don't drink, don't smoke or don't do drugs or things like that because if I was to do something wrong, I wouldn't be just hurting Mr. T — I'd be hurting the millions and millions of kids that want to be like Mr. T."

■ His combat boots. "My father used to wear these combat boots, my brother used to wear them. . . . They're like hand-me-downs. I don't have to wear them but I do because No. 1, I'm not trying to impress nobody. When it comes to meeting my maker, he's not going to ask me how many pair of shoes I had, how many suits I had, how many Rolls-Royces I had. He's going to ask me did I feed the hungry, did I clothe the naked, visit the sick and the lonely? And that's what I did. . . . I just fed over a thousand people for Thanksgiving, and next year in Chicago, I plan to feed 5,000, like Jesus did, in front of my church."

■ His mother. "My mother worked hard, you know. I remember the days when she used to walk to the welfare station and bring back a little bag of groceries for us — in the cold, winter snow of Chicago.



GOLD:

Some of the economic models are now showing that the rate of inflation is beginning to increase. Normally, this is a positive signal for the precious metals. But with real interest rates around 8% on longer-term T-bonds, holding gold is currently an expensive proposition. In the "old days" gold used to rise with interest rates, since rising interest rates were a function of rising inflation. But today, rising rates appear to put pressure on gold on the thesis that the rates simply make it more expensive to hold the metals.

On the chart, the gold "explosion" to 405 could have been simply a pull-back to the breakdown point, which was 400. I'm not ready to jump the gun on gold. An early indication of strength would be moving up over 411 (the 50-week exponential average for gold is 411). A rise to 408 would be the first hint of bullishness of the point & figure chart (chart courtesy of Chartcraft, Larchmont, NY).

Losses in metal contracts on the violent November 8 break were substantial, and subscribers know that I am not an advocate of "playing" the commodities. On a limit down ($25) drop in gold, the contract owner loses $2500 plus the $125 CMX commission. On a limit down drop in silver ($.50) the contract holder loses $2500 plus the $180 commission. It's an expensive way to go. I long ago concluded that the flaw in commodity trading (one of the flaws, I mean) is that sooner or later one gets caught in a limit-down move. When that happens, you get frightened to death (because you can't get out), and you spend the night tossing and turning and wondering whether the item will go limit-down the next day as well.

LATE NOTES: The A-D ratio (as of Dec. 9 has declined on 7 out of 9 days. But despite this, the actual damage to the Averages and the A-D Ratio has been slight. The market(and particularly the PTI) continues to show impressive resistance to the downside-- and that's a bullish indication.

NEXT MAILING: Dec. 29